

AR07



**na-churs
international**

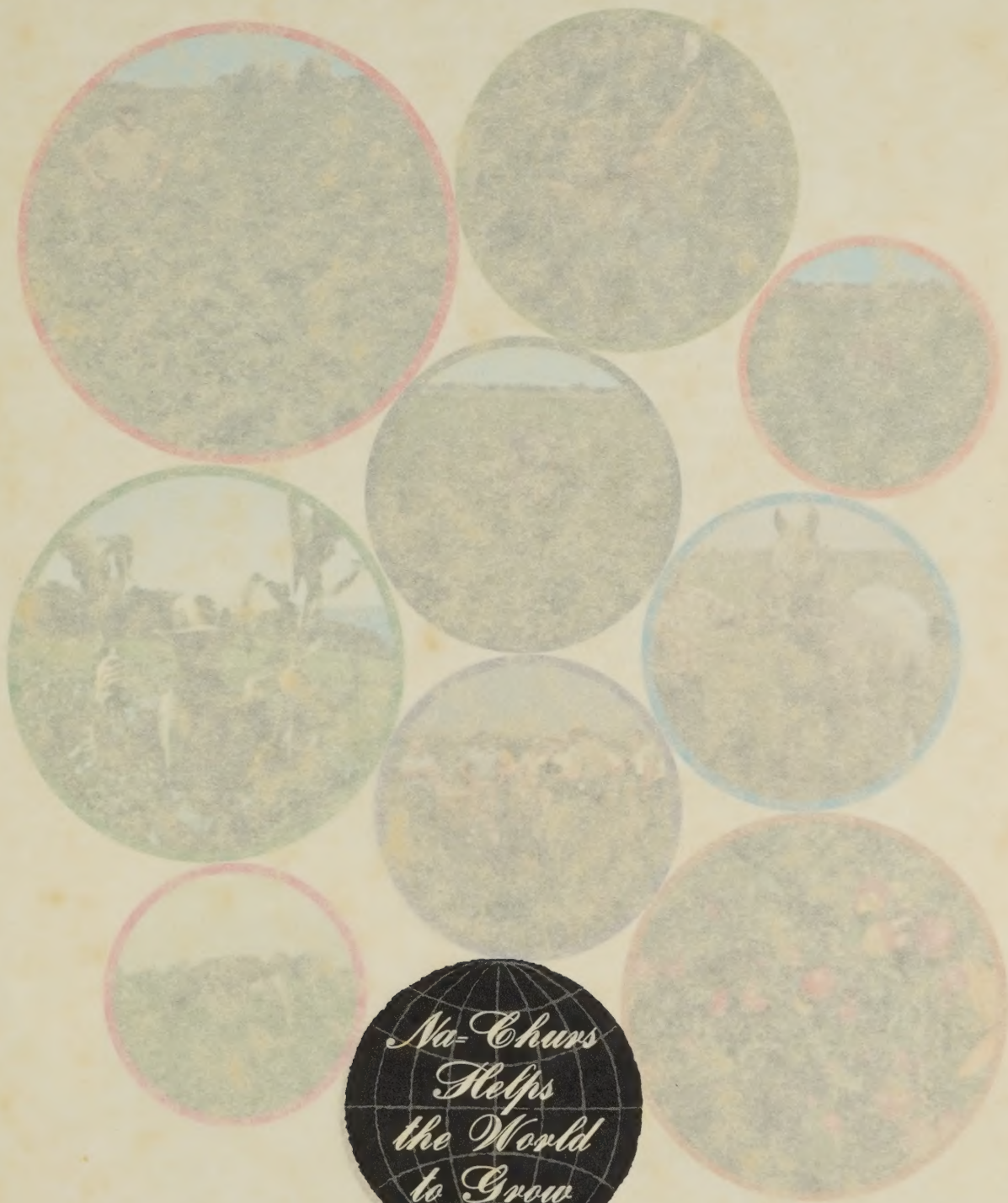
*Annual
report*

1973



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NA-CHURS *International*

ANNUAL REPORT

directors 1973



A. L. FARROW
President
Na-Churs International Limited
Director



B. W. EDNEY
Executive Vice-President
Na-Churs International Limited
Director



W. J. EVANS
Business Consultant, Prior to May, 1973
President
S. F. Lawrason & Company Limited
Director



D. E. FOYSTON
Director of A. E. Ames & Co. Ltd.
Director



J. F. PETCH
Attorney, Petch Associates
Na-Churs International Limited
Secretary-Director



R. J. VOSLER
Na-Churs International Limited
Treasurer

HEAD OFFICE
Oakridge Park, London, Ontario, Canada

STOCK EXCHANGE
Toronto Stock Exchange

AUDITORS
Ernst & Ernst

TRANSFER AGENT AND REGISTRAR
The Canada Trust Company, Toronto,
Winnipeg, Vancouver

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a letter from the president to our shareholders



December 12, 1973

Net earnings per common share of \$1.33, the highest in the corporations' history and 85% greater than the prior year, are indicative of the tremendous growth of your company in the year just ended.

Consolidated sales of \$20,982,542 were 49% higher than 1972 sales with a net return of 9.8% which compares favorably to the prior year net return on sales of 7.9%!

Capital equipment investment for the year totalled \$1,387,596, primarily representing increased storage capabilities necessitated by the sales volumes of the company. A portion of the capital investment is in approximately 20 acres of land and buildings acquired for experimental purposes, including a greenhouse which permits the testing and development of Na-Churs products the year round in different environments!

THE CHANGING TIMES!

Over the past number of weeks we have been hearing about the energy crisis and other problems in world conditions!

Here at Na-Churs we have good news to report! Agriculture is in top priority in the world today! To survive people must eat! The prime way for the United States to balance its dollars abroad is with farm grown crops such as soybeans, corn, wheat, cotton, etc.!

For the year of 1974 the United States has taken all farm controls off on the number of acres that can be planted, resulting in 60 million more acres for production! Plus a guaranteed base price for the Farmer, producing a heavy fertilizer demand which has resulted in your company booking for the 1974 season, at this writing, over \$43,000,000 in sales compared to \$7,000,000 at this time last year!

Anticipating raw materials shortages a year ago, a joint venture with a chemical supplier in rebuilding an acid furnace, the source of one of the most important raw materials for Na-Churs, will assist us in meeting our objective in 74!

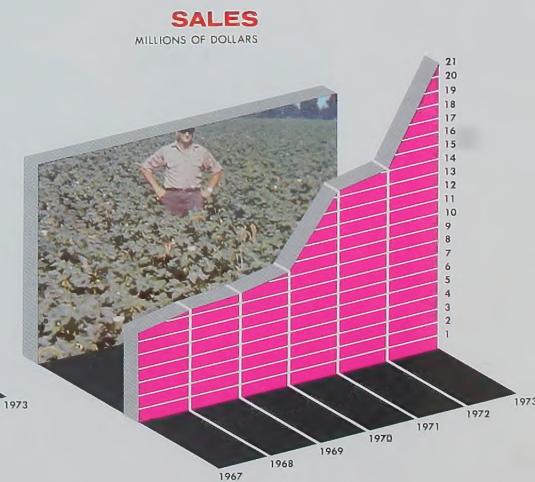
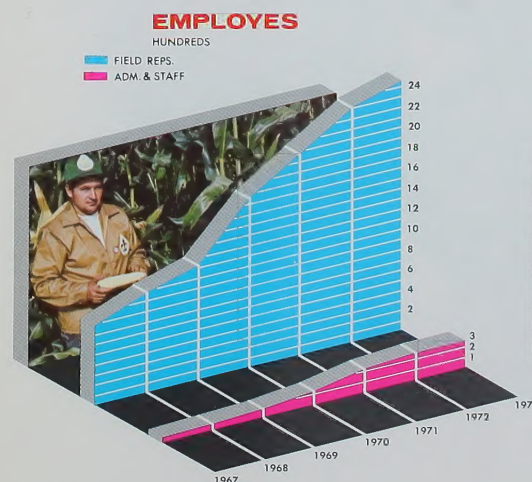
More good news! The recent debut of our newest member to the growing Na-Churs family, Na-Churs Liquid Feed Supplement, has met with overwhelming success among the farming communities! (See page 6 of the annual report.) This new member along with farmer acceptance of Na-Churs Liquid Fertilizer over the past years will enable your company to become a giant in the agriculture field!

Research and development continues on all fronts! An additional 438 acres has just recently been purchased on the outskirts of Marion where research will continue in the Feeds Division, and our Fertilizer Division continue experimentations of all types of crops. As our growth continues plans are for moving our manufacturing facilities to this new site!

FIELD OPERATIONS

Three top sales managers, Ronald Klumpp, Bruce Moyer, John Bartlett, ten years experience each with Na-Churs, have been appointed to the position of Assistant Vice-Presidents, working directly out of the Marion office. This team is headed up by Vice-President Don Davidhizar, a fifteen year Na-Churs veteran.

Upgrading and schooling our sales force of 2,000 men is a constant process, to help us keep abreast of all competitors, in this the greatest industry in the world, AGRICULTURE!



To Summarize:

1973

- Sales growth of 49%
- Profit growth of 85%
- Declaration of first semi-annual dividend to common shareholders
- Debut of Liquid Feed Supplement

1974

- Top priority for fuel will be given to all vehicles serving the agricultural industry!
- Announcement of a two-for-one stock split
- Increasing sales of feed supplement
- Anticipated profit in all quarters for the first time in company history
- Booked orders of \$43,000,000 are 500% greater than same period prior year

Management is grateful to our shareholders and employees for their contributions to the success of Na-Churs growth!

On behalf of the Board,

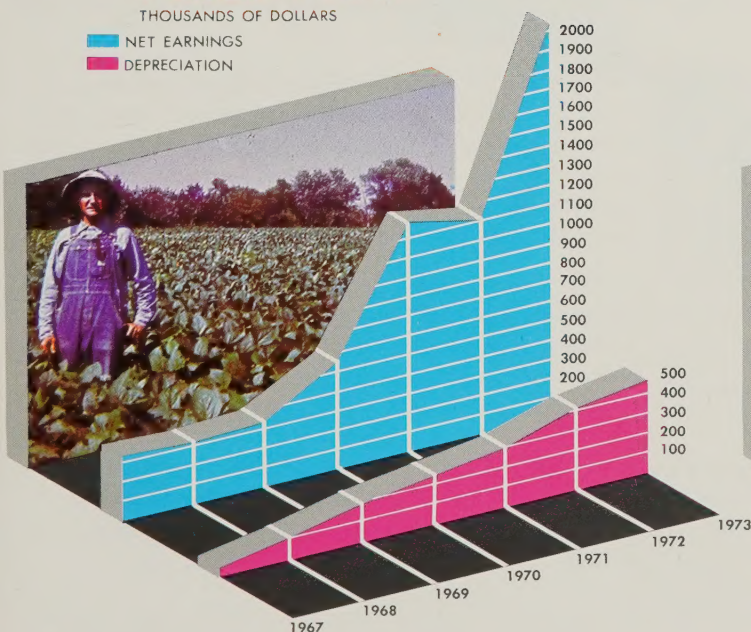
Allan L. Farrow

Allan L. Farrow
President

FUNDS FLOW

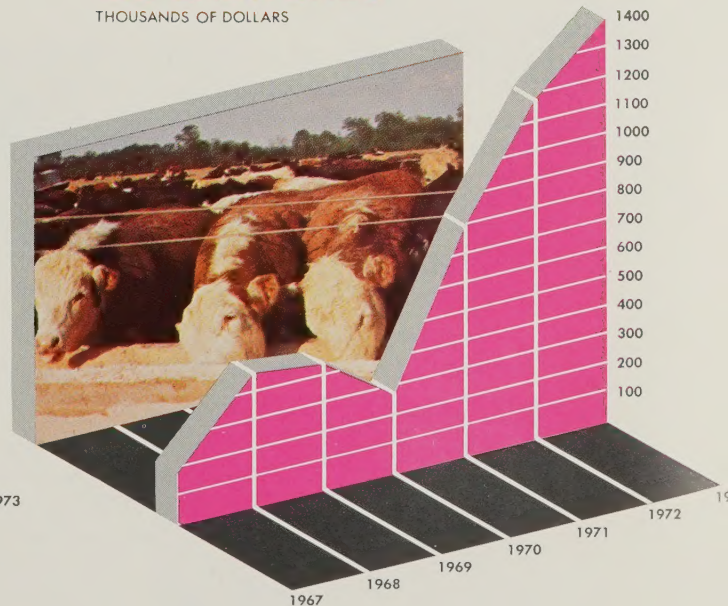
THOUSANDS OF DOLLARS

NET EARNINGS
DEPRECIATION



NET CAPITAL EXPENDITURES

THOUSANDS OF DOLLARS





Tank truck delivery to your farm tank helps to simplify every step of handling.

Major Breakthrough for Feedlots

NA-CHURS Liquid Feed Supplement

The new NA-CHURS Liquid Feed Supplement announced in the last issue of Na-Churs Way is making exciting news throughout the United States and Canada.

It has won quick acceptance by feedlots. It is receiving favorable attention in farm and livestock magazines. Users continue to add to the growing list of case histories documenting its performance.

In a few months time, NA-CHURS Liquid Feed Supplement has established itself as an important new and revolutionary force in feedlot potentials.

Our new feed supplement is high in protein content, minerals, trace elements and vitamins, making it a complete feeding supplement. (The only other additives needed are calcium carbonate and salt.)

NA-CHURS Liquid Feed Supplement has been tested over a wide area and under various conditions on calves 300 pounds, steers 600 pounds to market, and on dairy and beef cattle. It has been tested on research farms at Marion, Ohio, in Iowa and in Ontario, Canada.

The ratio of gain is approximately 3 pounds for 350-pound calves up to 600 pounds — from 600 pounds to finishing 3.5 pounds, with a feed conversion of one pound of gain to 5.9 to 6.2 pounds of feed. This was the ration of whole shelled corn.

In one test, a Holstein gained 481 pounds in 81 days — an average of 5.94 pounds per day. This is a feed conversion of 1 pound of gain to 4.09 pounds of feed.



Easy Methods of Application

NA-CHURS Liquid Feed Supplement is convenient to use — there are no bulky, heavy bags or complicated mixing procedures.

- 1— With drinking water. Inject with drinking water at the rate of four ounces a day, per animal, the year around.
- 2— With shelled corn, spray on as the corn is augered to feed bins or troughs at the rate of four fluid ounces per day.
- 3— With ground feed, mix into the feed at the rate of five gallons per ton.
- 4— With ensilage or hay, spray at the rate of four ounces per animal per day.



The metered flow of Liquid Feed Supplement into livestock water supplies is one easy method of application.



Positive, accurate metering of Liquid Feed Supplement is provided by this automatic pump and mixing tank. The supplement is thoroughly dispersed in the water flowing to livestock water supplies.

Liquid Feed Supplement can be added to mixed grain as it is being ground. Ground feed with supplement added is being augered to feeding troughs in this view.



NA-CHURS GROWTH CONTINUES



Income Statistics

Net sales

Earnings before depreciation, interest on
long-term debt and income taxes

Depreciation

Interest on long-term debt

Earnings before income taxes

Income taxes

Net earnings

Net earnings per common share—Note B

Effective tax rate

Net earnings as % of sales

Balance Sheet Statistics

Current assets

Current liabilities

Working capital

Ratio of current assets to current liabilities

Net expenditures on plant and equipment

Long-term debt

Shareholders' equity

Common shareholders' equity per common
share—Note B

Common shares outstanding at year-end

Net earnings as a % of common shareholders' equity
(at beginning of year) after provisions
for preferred dividends

1973	1972	1971	1970	1969	1968	1967	1966
\$20,982,542	\$14,052,299	\$13,417,507	\$8,283,426	\$7,717,986	\$7,312,039	\$6,617,255	\$4,226,559
4,572,411	2,605,268	2,662,308	1,393,563	917,215	727,629	688,726	351,624
468,492	419,362	302,756	236,539	193,185	109,758	42,298	38,790
199,714	123,084	26,015	46,608	6,296	3,940	4,776	3,242
668,206	542,446	328,771	283,147	199,481	113,698	47,074	42,032
3,904,205	2,062,822	2,333,537	1,110,416	717,734	613,931	641,652	309,592
1,846,300	951,000	1,135,000	555,000	373,000	290,270	300,962	131,634
2,057,905	1,111,822	1,198,537	555,416	344,734	323,661	340,690	177,958
1.33	.72	.78	.36	.22	.22	.28	.15
47.3%	46.1%	48.6%	50.0%	52.0%	47.3%	46.9%	42.5%
9.8%	7.9%	8.9%	6.7%	4.5%	4.4%	5.1%	4.2%
\$ 9,530,408	\$ 6,802,659	\$ 6,085,888	\$4,021,130	\$4,442,496	\$3,274,373	\$1,991,968	\$1,298,015
4,601,341	2,868,341	3,610,094	1,956,004	2,726,604	1,995,836	1,489,565	1,090,719
4,929,067	3,934,318	2,475,794	2,065,126	1,715,892	1,278,537	502,403	207,296
2.1:1	2.4:1	1.7:1	2.1:1	1.6:1	1.6:1	1.3:1	1.2:1
\$ 1,387,596	\$ 1,170,333	\$ 787,917	\$ 265,247	\$ 428,176	\$ 458,636	\$ 179,551	\$ 185,788
1,303,800	1,539,627	288,339	422,474	556,461	65,634	74,698	85,404
7,286,213	5,228,906	4,153,864	2,950,907	2,405,913	2,077,313	876,735	528,482
4.63	3.30	2.57	1.79	1.43	1.21	.53	.30
1,537,224	1,532,724	505,908	502,408	502,408	502,408	400,218	399,999
40.7%	28.5%	43.9%	25.2%	18.3%	49.0%	90.8%	90.2%

NOTE A: 1969 and prior years have been restated in U.S. currency to compare to 1970 reporting.

NOTE B: Restated for 1971 and prior years to reflect three-for-one stock split in 1972.

Sa-Churs International

LIMITED AND SUBSIDIARIES

CONSOLIDATED

September 30,

	ASSETS	
CURRENT ASSETS	<u>1973</u>	<u>1972</u>
Cash	\$ 1,307,195	\$ 237,594
Notes and accounts receivable (assigned) — Note B:		
Trade	6,144,610	4,615,351
Other	266,247	85,386
Allowances for doubtful accounts (deduction)	(550,000)	(458,000)
	<u>5,860,857</u>	<u>4,242,737</u>
 Inventories (pledged) — Note B:		
Finished products	1,745,799	1,754,150
Work in process, raw materials and supplies	430,038	430,110
	<u>2,175,837</u>	<u>2,184,260</u>
Recoverable taxes on income	61,000	
Other current assets	125,519	138,068
TOTAL CURRENT ASSETS	<u>9,530,408</u>	<u>6,802,659</u>
 OTHER ASSETS		
Deferred taxes on income	148,000	146,000
Sundry other assets	15,365	
	<u>163,365</u>	<u>146,000</u>
 PROPERTY, PLANT AND EQUIPMENT — Note B		
Land	168,139	68,139
Buildings and roadways	821,465	699,317
Plant equipment and storage tanks	3,487,331	2,671,689
Office furniture and equipment	124,357	128,648
Transportation equipment	124,598	113,379
Allowances for depreciation (deduction)	(1,562,909)	(1,331,903)
	<u>3,162,981</u>	<u>2,349,269</u>
	<u>\$12,856,754</u>	<u>\$9,297,928</u>

See accompanying notes to consolidated financial statements.

BALANCE SHEET

(EXPRESSED IN UNITED STATES CURRENCY)



1973 and 1972

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

	1973	1972
Notes payable to bank		\$ 815,825
Trade accounts payable	1,341,111	383,465
Compensation and taxes thereon	1,790,222	898,338
Accrued interest, sundry taxes and other	18,196	7,035
Taxes on income	340,000	424,732
Portion of long-term debt due within one year — Note B	2,140,000	338,946
TOTAL CURRENT LIABILITIES	4,619,529	2,868,341

LONG-TERM DEBT — less portion classified as current liability

Note payable to bank, 3½% above current prime rate (13% at September 30, 1973) due in quarterly installments of \$75,000 through December, 1977 — Note B

Mortgage note payable

	1,200,681
	<u>1,200,681</u>

SHAREHOLDERS' EQUITY

Capital stock — Notes D and E

Authorized:

Class "A" preferred — 11,757 18/100 shares, 6% cumulative, redeemable, par value \$10 Canadian per share

Class "B" preferred — 152,542 shares, 6% non-cumulative, redeemable, par value 45¢ Canadian per share

Common — 3,000,000 shares without par value

Shares issued and outstanding:

Class "A" preferred — 11,757 18/100

Class "B" preferred — 152,542

Common — 1,537,224 in 1973 and 1,532,724 in 1972

Additional paid-in capital

Retained earnings

	104,462
	61,979
	<u>958,235</u>
	1,124,676
	29,769
	<u>4,074,461</u>
	5,228,906
	<u>\$ 9,297,928</u>



Na-Churs International

LIMITED AND SUBSIDIARIES

EARNINGS-OPERATIONS

STATEMENT OF CONSOLIDATED INCOME

(Expressed in United States currency)

NA-CHURS INTERNATIONAL LIMITED AND SUBSIDIARIES

YEARS ENDED SEPTEMBER 30, 1973 and 1972

	<u>1973</u>	<u>1972</u>
Net sales	\$20,982,542	\$14,052,299
Deductions:		
Costs and expenses other than interest and taxes on income	17,029,792	11,962,391
Interest:		
Long-term debt	199,714	123,084
Other	39,065	79,010
	<u>17,268,571</u>	<u>12,164,485</u>
Other income	3,713,971	1,887,814
	<u>190,234</u>	<u>175,008</u>
INCOME BEFORE TAXES ON INCOME	<u>3,904,205</u>	<u>2,062,822</u>
Taxes on income:		
Current	1,853,300	988,000
Deferred (deduction)	(7,000)	(37,000)
	<u>1,846,300</u>	<u>951,000</u>
NET INCOME (per common share: 1973 — \$1.33; 1972 — \$.72)	<u>\$ 2,057,905</u>	<u>\$ 1,111,822</u>
Remuneration paid or payable to senior officers and directors of the Corporation	<u>\$ 454,840</u>	<u>\$ 280,688</u>

See accompanying notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

(Expressed in United States currency)

NA-CHURS INTERNATIONAL LIMITED AND SUBSIDIARIES

YEARS ENDED SEPTEMBER 30, 1973 and 1972

	1973	1972
Balance at beginning of year	\$ 2,974,461	\$ 2,969,692
Net income	2,057,905	1,111,822
	<u>5,032,366</u>	<u>4,081,514</u>
Deduct dividends on Class "A" preferred shares	7,053	7,053
Balance at end of year	<u>\$ 5,025,313</u>	<u>\$ 4,074,461</u>

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

(Expressed in United States currency)

YEARS ENDED SEPTEMBER 30, 1973 and 1972

	1973	1972
FUNDS PROVIDED		
Net income	\$ 2,057,905	\$ 1,111,822
Items recognized in net income which did not affect working capital:		
Provision for depreciation of property, plant and equipment	450,492	419,362
Write-off of abandoned farm storage tanks	100,322	
Deferred taxes on income	(17,000)	(37,000)
FUNDS PROVIDED FROM OPERATIONS	<u>2,624,789</u>	<u>1,494,184</u>
Proceeds from long-term debt	173,000	1,500,000
Proceeds from issuance of common shares	6,445	21,500
TOTAL FUNDS PROVIDED	<u>2,804,234</u>	<u>3,015,684</u>
FUNDS USED		
Expenditures for property, plant and equipment	1,387,546	1,170,333
Current maturities and retirement of long-term debt	404,581	328,547
Increase in other assets	10,308	
Dividends on Class "A" preferred shares	7,053	7,053
Class "A" and "B" preferred shares purchased for cancellation		51,227
TOTAL FUNDS USED	<u>1,809,488</u>	<u>1,557,160</u>
INCREASE IN WORKING CAPITAL	<u>\$ 994,746</u>	<u>\$ 1,458,524</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	\$ 1,060,001	\$ 171,988
Notes and accounts receivable	3,018,120	(460,673)
Inventories	(8,383)	912,499
Recoverable taxes on income	41,000	
Other current assets	(12,583)	92,957
INCREASE IN CURRENT ASSETS	<u>2,777,749</u>	<u>716,771</u>
Increase (decrease) in current liabilities:		
Notes payable to bank	(615,000)	165,825
Trade accounts payable	178,148	(347,909)
Compensation and taxes thereon	1,277,014	(162,630)
Accrued interest, sundry taxes and other	176,211	(3,595)
Taxes on income	911,793	(473,279)
Portion of long-term debt due within one year	(4,315)	79,835
INCREASE (DECREASE) IN CURRENT LIABILITIES	<u>1,773,600</u>	<u>(741,753)</u>
INCREASE IN WORKING CAPITAL	<u>\$ 994,746</u>	<u>\$ 1,458,524</u>

See accompanying notes to consolidated financial statements.



NA-CHURS INTERNATIONAL LIMITED
AND SUBSIDIARIES

SEPTEMBER 30, 1973

NOTE A — ACCOUNTING POLICIES

Basis of Consolidation — The consolidated financial statements include the accounts of the Corporation and its subsidiaries (all of which are wholly-owned):

Na-Churs Plant Food Co.
Berlou Manufacturing Company
Tri-State Trucking Inc.
Shenandoah Grain Corporation
Na-Churs Plant Food Company (Canada) Limited
The Berlou Company (Canada) Limited

Inter-Company accounts and transactions have been eliminated.

Translation of Foreign Currency — The financial statements are stated in United States dollars. Amounts in Canadian funds have been translated on the following basis:

- Current assets and current liabilities at approximate year-end rates;
- Property, plant and equipment, deferred taxes on income, long-term debt and capital stock at historical rates; and
- Income, costs and expenses at average rates for the year.

Unrealized foreign exchange adjustments (nominal in amount) are treated as income or expense.

Inventories — Inventories have been valued generally at the lower of cost or market. Cost is determined on a first-in, first-out basis, and market is considered as net realizable value.

Property, Plant and Equipment — Property, plant and equipment is carried at cost and includes expenditures for new assets and those expenditures which substantially increase the useful lives of existing assets. Maintenance, repairs and minor renewals are expensed as incurred. When properties are disposed of, the cost and related allowances for depreciation are removed from the accounts and any gain or loss is credited or charged to income.

The Corporation provides for depreciation of property, plant and equipment principally by the straight-line method over the estimated useful lives of the assets.

Income Taxes — The Corporation provides for income taxes based on income reported for financial statement purposes, adjusted for permanent tax differences. Deferred taxes result principally from bad debt expense and state franchise (income) tax expense in excess of amounts currently deductible for U. S. federal income tax purposes.

Investment tax credits (\$51,000 in 1973 and \$38,000 in 1972) are recognized as a reduction of the provision for U. S. federal income taxes on a flow-through basis.

Stock Options — Proceeds from the sale of common stock issued under options are credited to common stock at the time the options are exercised. Options are issued at market values at the date they are granted. Therefore, the Corporation makes no charges against income with respect to options.

Research and Development Costs — Research and development costs are charged to operations as incurred.

Income Per Common Share — Income per common share is computed by dividing (1) net income, less dividend requirements on the Classes "A" and "B" preferred stock by (2) the average number of common shares outstanding during the year. Outstanding stock options did not have a material dilutive effect.

NOTE B — NOTES PAYABLE TO BANK

Notes payable to bank consist of a revolving credit agreement which is collateralized by accounts receivable and inventories and a five year term loan collateralized by inventories, property, plant and equipment, and substantially all other assets of Na-Churs Plant Food Co. The agreements provide, among other things, that the subsidiary may not pay or declare any cash dividends, purchase or retire any of its capital stock, or issue any capital stock, except to Na-Churs International Limited.

The subsidiary had no borrowings under the revolving credit agreement at September 30, 1973.

notes to consolidated financial statements

NOTE C — PENSION PLAN

During the year ended September 30, 1972 the Corporation adopted a deferred annuity type pension plan for employees meeting certain requirements as to age and length of service. No past service liability or vested benefits were incurred by the plan. Provisions for pension costs amounted to \$42,000 in 1973 and \$17,000 in 1972. Pension costs for 1973 increased due to: (1) an increase in the number of employees covered by the plan; (2) a change from Canadian to U. S. Annuity tables; (3) a full year's coverage in 1973 compared to nine months coverage in 1972. The Corporation funds pension costs accrued.

NOTE D — STOCK OPTIONS

The Corporation has a stock option plan for officers and key employees. Generally, the options are exercisable one year from date of grant at the rate of 20% a year and expire five years from date of grant. The option price for all options is 100% of market value at date of grant.

During the year ended September 30, 1973, options for 5,500 shares were granted at a price of \$6.50 Canadian a share and options to purchase 4,500 shares were exercised at a price of \$1.43 Canadian a share. At September 30, 1973, options for 37,000 shares, at prices ranging from \$1.43 to \$6.50 Canadian a share were outstanding and options for 31,500 shares were exercisable.

NOTE E — CAPITAL STOCK

On December 21, 1971, each of the authorized and issued common shares of the Corporation was split on a three for one basis. The calculation of income per common share has been adjusted to reflect this stock split.

NOTE F — COMMITMENT

Na-Churs Plant Food Co. has signed a contract with a supplier to purchase double its 1973 requirements of one of its most important raw materials. Terms of the agreement require the subsidiary to pay \$375,000 to activate a portion of the supplier's facilities which will enable the subsidiary to acquire a major portion of its 1974 requirements.

In addition Na-Churs Plant Food Co. has contracted to purchase approximately 438 acres of land on the outskirts of Marion, Ohio for a cost of \$400,000.

NOTE G — LEASES

Na-Churs Plant Food Co. leases certain transportation equipment and computer hardware. The leases require minimum annual rentals of approximately \$340,000 during each of the next five years.

NOTE H — LITIGATION

Certain of the subsidiaries of the Corporation are currently defendant in several law suits. In the opinion of legal counsel, liability for the uninsured portion of claims under these lawsuits would not be significant.

AUDITORS' REPORT

To the Shareholders

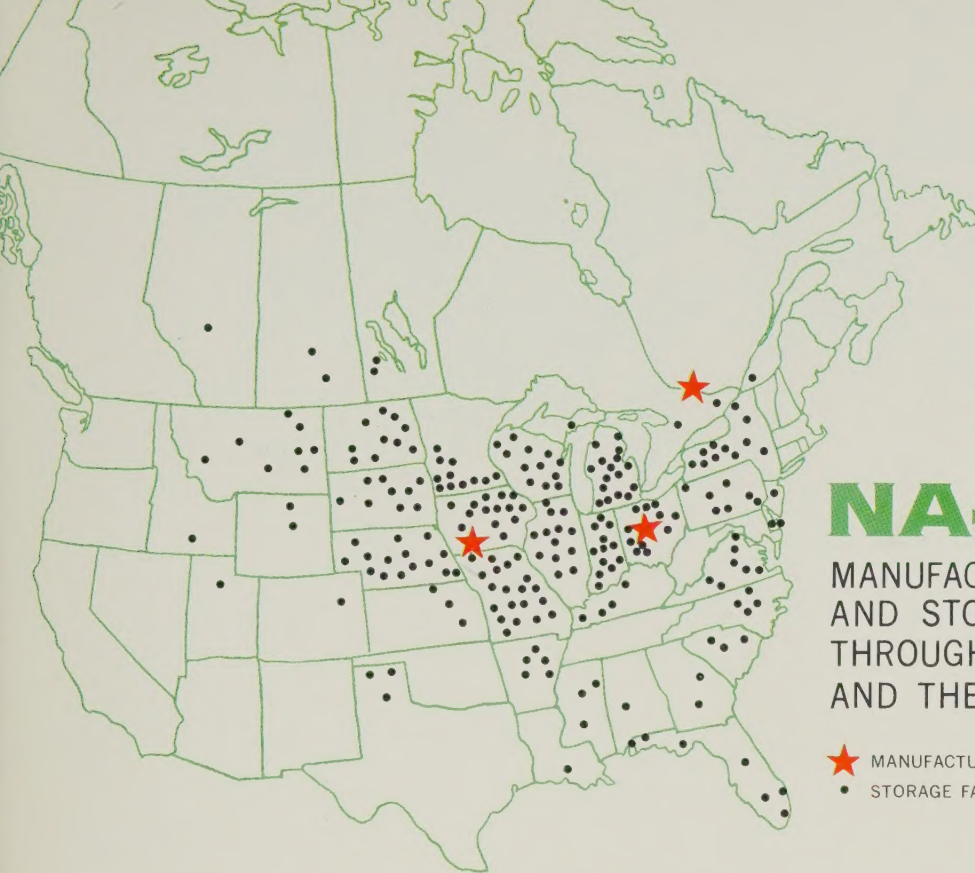
Na-Churs International Limited

We have examined the consolidated balance sheet of Na-Churs International Limited and subsidiaries as of September 30, 1973, and the related statements of consolidated income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the consolidated financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of income, retained earnings and changes in financial position present fairly the consolidated financial position of Na-Churs International Limited and subsidiaries at September 30, 1973, and the consolidated results of their operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst
Chartered Accountants

December 7, 1973



NA-CHURS

MANUFACTURING PLANTS
AND STORAGE FACILITIES
THROUGHOUT CANADA
AND THE UNITED STATES.

- ★ MANUFACTURING PLANTS
- STORAGE FACILITIES



STORAGE TANKS



THREE OF THE FLEET OF MODERN TRUCKS
SERVICING DISTRIBUTION CENTERS DAILY



DELIVERY TRUCKS



Na-Churs
International
LIMITED

Na-Churs Drive, Oakridge Park, London, Ontario, Canada

Marion, Ohio

London, Ontario, Canada

Red Oak, Iowa